



Memorandum

DATE: April 20, 2000

FROM: Richard S. Foster
Office of the Actuary

SUBJECT: Error in Projecting Future Interest Earnings in 2000 HI Trustees Report

On March 30, 2000, the Board of Trustees for the Medicare Hospital Insurance (HI) trust fund issued their annual report to Congress on the financial status of the trust fund. The projections shown in this report were prepared by my office on behalf of the Board. We have since discovered a serious error in our projection of future interest earnings on the assets of the HI trust fund. This error resulted in a substantial underestimate of future interest income and caused the estimated year of exhaustion for the HI trust fund to be shown as 2023 instead of the correct date of 2025. *Actual* interest earnings on HI assets were not affected, only our estimates of future interest.

For the 2000 HI report, we introduced a new, more refined methodology for projecting future interest income. The new methodology was intended to improve the precision of our interest estimates by incorporating the specific asset investment and redemption policies followed by the Department of the Treasury in managing the Medicare trust funds. Unfortunately, a programming mistake resulted in an erroneous projection of interest earnings. The estimated amounts of interest are understated by \$2.1 billion in calendar year 2000 and by gradually increasing amounts through 2014. The understatement increases substantially in 2015 and later, to roughly \$20 billion annually.

The attached chart compares the original projection of total HI assets, as prepared for the 2000 HI Trustees Report, with the corrected version, under the Trustees' intermediate set of assumptions. Based on the corrected projections, HI income (including interest) would exceed program expenditures through 2016, 2 years later than the original projections, and the assets of the HI trust fund would be exhausted in 2025 rather than in 2023 as originally estimated. The information shown in the Trustees Report under the alternative "low cost" and "high cost" projections is not significantly affected by the programming error. Also, the Trustees' overall conclusions are not affected—the HI trust fund continues to meet the Trustees' test of short-range financial adequacy and the program continues to face a serious long-range financial imbalance.

We deeply regret this error. Together with the staffs of the Trustees, we are currently investigating how best to correct the existing report copies and we will correct the copy on the Health Care Financing Administration's Internet site (www.hcfa.gov) as quickly as possible. Inquiries regarding the corrected projections may be addressed to the Office of the Actuary, HCFA, Room N3-01-21, 7500 Security Boulevard, Baltimore, Maryland 21244 or to DMMCE@hcfa.gov.

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Chief Actuary

HI trust fund assets: Original versus corrected projections

(In billions, at beginning of year)

